

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Northeast Michigan Council of Governments	County Otsego
Fiscal Year End September 30, 2007	Opinion Date January 15, 2008	Date Audit Report Submitted to State February 7, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
		Zip 49788	
Authorizing CPA Signature <i>Kenneth A. Talsma</i>		Printed Name Kenneth A. Talsma, CPA	License Number 1101024989

Northeast Michigan Council of Governments

Basic Financial Statements

September 30, 2007

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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OFFICES IN
MICHIGAN & WISCONSIN

Independent Auditor's Report

Board of Directors
Northeast Michigan Council
of Governments
Gaylord, Michigan

We have audited the accompanying financial statements of the governmental activities and major fund of the Northeast Michigan Council of Governments, as of and for the year ended September 30, 2007, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Northeast Michigan Council of Governments, as of September 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2008, on our consideration of the Northeast Michigan Council of Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Northeast Michigan Council
of Governments

The Management's Discussion and Analysis as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northeast Michigan Council of Government's basic financial statements. The program activity combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The above mentioned supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

January 15, 2008

Management's Discussion and Analysis

Overview of the Basic Financial Statements

Northeast Michigan Council of Government's basic financial statements include government-wide statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements report information on the Council's governmental activities. The government-wide statements are designed to provide readers with a broad overview of the Council's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the Council's assets and liabilities, with the difference reported as net assets. All long-term assets and debt obligations are presented, as applicable.

The Statement of Activities focuses on the current year's revenues and expenses using accounting methods similar to those used by private sector businesses. This statement measures the Council's change in net assets for the year.

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide financial statements.

Other Supplementary Information

A combining statement of program activity is provided in the Other Supplementary Information. This information is not required as a part of the basic financial statements.

Government-wide Financial Analysis

The Council's combined assets increased 40% from a year ago increasing from \$216,854 to \$302,598.

In a condensed format, the table below shows the net assets of the Northeast Michigan Council of Governments.

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2007</u>
Assets:		
Current Assets	\$ 212,864	\$ 299,938
Noncurrent Assets	<u>3,990</u>	<u>2,660</u>
Total Assets	<u>\$ 216,854</u>	<u>\$ 302,598</u>
Liabilities:		
Current Liabilities	\$ 188,817	\$ 293,591
Noncurrent Liabilities	<u>16,330</u>	<u>6,129</u>
Total Liabilities	<u>205,147</u>	<u>299,720</u>
Net Assets:		
Invested in Capital Assets	3,990	2,660
Unrestricted	<u>7,717</u>	<u>218</u>
Total Net Assets	<u>\$ 11,707</u>	<u>\$ 2,878</u>

Capital assets are used in supporting the Council's planning services. The remaining portion of net assets, unrestricted net assets, may be used at the Council's discretion to meet ongoing obligations.

The results for the Council as a whole are reported in the Statement of Activities, which is summarized below.

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2007</u>
Revenues and Other Support	\$ 1,102,020	\$ 1,120,776
Expenses	<u>1,118,531</u>	<u>1,129,605</u>
Changes in net Assets	(16,511)	(8,829)
Net Assets – Beginning of Year	<u>28,218</u>	<u>11,707</u>
Net Assets – End of Year	<u>\$ 11,707</u>	<u>\$ 2,878</u>

The current year operating loss was \$8,829. Program revenues are directly related to program expenses. The council relies on member appropriations each year from local units of government to help offset costs. The Council experienced a decrease in net assets this year primarily due to a combination of losses sustained on four programs closing during the year and staffing changes impacting General Program Operations.

Fund Financial Statements

Governmental Funds – All of the Council's basic services are included in the governmental fund, which focuses on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that *illustrates* whether more or fewer financial resources can be spent in the near future to finance the Council's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.

Capital Assets

At September 30, 2007 the Council has \$2,660 invested in capital assets. The following table summarizes the capital asset activity for the year:

	Beginning Balance	Additions	Disposals	Ending Balance
Assets being depreciated	\$ 12,643	\$ -	\$ -	\$ 12,643
Less accumulated depreciation	(8,653)	(1,330)	-	(9,983)
Net capital assets	<u>\$ 3,990</u>	<u>\$ (1,330)</u>	<u>\$ -</u>	<u>\$ 2,660</u>

Debt Outstanding

At the end of the year, the Council had \$74,915 in debt outstanding. Below is the debt activity for the year:

	Beginning Balance	Additions	Reductions	Ending Balance
Notes payable	\$ 25,769	\$ -	\$ 9,454	\$ 16,315
Line of credit	<u>46,051</u>	<u>58,600</u>	<u>46,051</u>	<u>58,600</u>
Total debt	<u>\$ 71,820</u>	<u>\$ 58,600</u>	<u>\$ 55,505</u>	<u>\$ 74,915</u>

Economic Factors

Northeast Michigan Council of Governments is a regional planning "commission" servicing various counties and local units of government in Northeast Michigan. The Council's funding is obtained from state, federal and other grants and contracts as well as member appropriations. Consequently, the Council is affected by economic fluctuations affecting Northeast Michigan as well as state and federal budgetary constraints.

Financial Contact

The Council's financial statements are designed to present users with a general overview of the Council's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed towards the Executive Director of Northeast Michigan Council of Governments at PO Box 457, Gaylord, Michigan 49734.

Basic Financial Statements

Northeast Michigan Council of Governments

Statement of Net Assets September 30, 2007

	Governmental Activities
ASSETS:	
Current Assets	
Cash and Equivalents	\$ 16,366
Due from Grantors	281,729
Prepaid Expenses	1,843
Total Current Assets	299,938
Capital Assets	
Property and Equipment, (Net of Accumulated Depreciation)	2,660
Total Assets	\$ 302,598
LIABILITIES:	
Current Liabilities	
Accounts Payable	\$ 213,395
Accrued Liabilities	5,315
Due to EDC	1,100
Deferred Revenue	4,995
Line of Credit	58,600
Note Payable - Current Portion	10,186
Total Current Liabilities	293,591
Long-Term Liabilities	
Note Payable	6,129
Total Liabilities	299,720
NET ASSETS:	
Invested in Capital Assets	2,660
Unrestricted	218
Total Net Assets	\$ 2,878

Northeast Michigan Council of Governments

Statement of Activities For the Year Ended September 30, 2007

		Program Revenues		Governmental
		Charges for Services	Operating Grants	Activities Net (Expense) Revenue and Changes in Net Assets
	Expenses			
Functions/Programs				
Governmental Activities:				
Planning / Community Development:				
Community Corrections	\$ 447,600	\$ -	\$ 444,789	\$ (2,811)
Economic Development	91,666	-	87,478	(4,188)
Transportation	258,952	-	257,070	(1,882)
Environmental and Water Resources	181,616	-	179,979	(1,637)
Planning	88,925	-	85,954	(2,971)
Agency Operations	60,846	306	-	(60,540)
Total Governmental Activities	<u>\$ 1,129,605</u>	<u>\$ 306</u>	<u>\$ 1,055,270</u>	\$ (74,029)
General Revenues				
Interest on Deposits				393
Membership Dues				<u>64,807</u>
Changes in Net Assets				(8,829)
Net Assets Beginning				<u>11,707</u>
Net Assets Ending				<u>\$ 2,878</u>

Northeast Michigan Council of Governments

Balance Sheet Governmental Fund September 30, 2007

	<u>General Fund</u>
Assets:	
Cash and Equivalents - Unrestricted	\$ 16,366
Due from Grantors	281,779
Prepaid Expenses	<u>1,843</u>
Total Assets	<u><u>\$ 299,988</u></u>
Liabilities:	
Accounts Payable	\$ 213,395
Accrued Liabilities	5,315
Due to EDC	1,100
Deferred Revenue	4,995
Line of Credit	<u>58,600</u>
Total Liabilities	<u>283,405</u>
Fund Balance:	
Unreserved and Undesignated	<u>16,533</u>
Total Fund Balance	<u>16,533</u>
Total Liabilities and Fund Balances	<u><u>\$ 299,938</u></u>

**Reconciliation of the Governmental Fund
Balance Sheet to the Statement of Net Assets
September 30, 2007**

Total Fund Balances – governmental fund	\$	16,533
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,660
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These consist of:		
Note Payable		<u>(16,315)</u>
Net Assets of Governmental Activities	\$	<u>2,878</u>

Northeast Michigan Council of Governments**Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Fund
For the Year Ended September 30, 2007**

	General Fund
Revenues	
Federal	\$ 275,998
State	643,412
Local	183,781
In-kind Contributions	16,885
Interest on Deposits	393
Other Income	307
	<hr/>
Total Revenues	1,120,776
	<hr/>
Expenditures	
Planning/Community Development	1,137,729
	<hr/>
Total Expenditures	1,137,729
	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	(16,953)
Fund Balance - October 1, 2006	33,486
	<hr/>
Fund Balance - September 30, 2007	\$ 16,533
	<hr/> <hr/>

Northeast Michigan Council of Governments

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities For the Year Ended September 30, 2007

Net Change in Fund Balance – Total Governmental Funds	\$	(16,953)
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$0) exceeded depreciation (\$1,330) in the current period.	(1,330)
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Governmental funds report principal payments as expenditures. However, in the statement of net assets the repayment of principal reduces notes payable balance.	<u>9,454</u>
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Changes in Net Assets of Governmental Activities	<u>\$</u>	<u>(8,829)</u>
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Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments. In accordance with Statement No. 34, the Council is considered to be a Special Purpose Government due to being established to serve one particular purpose. To conform with the Statement, the Council has included a Management's Discussion and Analysis section.

The financial statements of the Northeast Michigan Council of Governments are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Council's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Reporting Entity

The Northeast Michigan council of Governments (the Council) is a regional planning "commission", as defined by Public Act 281 of 1945 of the State of Michigan, servicing various counties and local units of governments in Northeast Michigan. Through the Council, the units coordinate their efforts to maintain and improve the physical, economic, and social well being of the area. The Council has been determined to be a local unit of government for financial purposes.

The Council's funding is obtained from state, federal and other grants and contracts as well as member appropriations. Consequently, the Council is affected by economic fluctuations affecting Northeast Michigan as well as state and federal budgetary constraints.

The accompanying financial statements have been prepared in accordance with criteria established by Governmental Accounting Standards Board Statement (GASBS) No. 14 (and amended by GASBS No. 39). GASB 14 states the primary basis for determining whether outside agencies and organizations should be considered component units of the Council and included in the Council's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The Council has no component units.

B – Basic Financial Statements

The basic financial statements (i.e., the statement of net assets and the statement of revenues, expenses, and changes in net assets) report information on all of the nonfiduciary activities of the Council. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants that are restricted to meeting the operational or capital requirements of a particular function or segment.

Separate financial statements are provided for the governmental fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:**

The basic financial statements are reported using the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

All other revenue items are considered to be available only when cash is received by the Council.

D - Assets, Liabilities, and Net Assets or EquityBank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Deposits are recorded at cost.

Receivables

The Council provides many services to governmental and quasi-governmental agencies. The Council has contracts to provide payment for these services rendered, along with other performance related objectives achieved, up to a maximum contractual dollar amount.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, and equipment are depreciated using the straight-line method over the following useful lives:

Furniture and Equipment

5-15 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Resources from various contracts are recorded as revenue when the related costs are incurred. Contractual advances are deferred and recognized over the periods to which the terms of the restricted contributions are substantially met and the contractual services are provided.

Expenditures

Expenditures identified as applying to a specific program or supporting service are recorded in the appropriate service area as incurred. Expenditures not directly attributable to a program or supporting service are allocated between service areas based on an indirect cost rate.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

Income Taxes

The Council is a governmental unit as defined by Public Act 281 of 1945 of the State of Michigan and is therefore exempt from federal income taxation.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets – The Council is not required to adopt an operating budget by law; therefore, no budgetary comparison has been included in the financial statements. Although the Council is not required to adopt an operating budget by law it does adopt one as required by its bylaws and loan agreements.

NOTE 3 - CASH AND EQUIVALENTS

At year end, the Council's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and Cash Equivalents:	
- Unrestricted	\$ 16,366
Total	<u>\$ 16,366</u>

The breakdowns for deposits are as follows:

Bank deposits (checking and savings accounts)	\$ 16,366
Total	<u>\$ 16,366</u>

NOTE 3 - CASH AND EQUIVALENTS (Continued)

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Council's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Council's investment policy does not have specific limits in excess of state law on investment credit risk. The Council has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Council's deposits may not be returned. State law does not require and the Council does not have a policy for deposit custodial credit risk. As of year end, none of the Council's bank balance of \$0 was exposed to credit risk.

Statutory Authority:

NEMCOG Executive Director and Board Chair are limited to investments authorized by Act 20 of 1943, as amended, and current adopted board policy, may invest in the following:

1. Bonds, securities, and other direct obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution which is a member of the FDIC, NCUA, or equivalent insurance. Authorized depositories shall be designated by NEMCOG Board of Directors annually.
3. Obligations of the State or any of its political subdivisions that at the time of purchase are rated investment grade by not less than one (1) standard rating service.

NOTE 4 - DUE FROM GRANTORS

The amount reported as "Due from Grantors" as of September 30, 2007, consists of amounts due from the following:

Depart of Labor and Economic Growth	\$ 9,606
Mitchell Township	6,422
State of Michigan Department of Environmental Quality	81,777
U.S. Economic Development Administration	18,740
U.S. Environmental Protection Agency	19,626
State of Michigan Office of Community Corrections	69,842
State of Michigan Department of Transportation	62,176
Other	<u>13,540</u>
Total Due from Grantors	<u>\$ 281,729</u>

NOTE 5 - CAPITAL ASSETS

A summary of capital assets is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Capital assets being depreciated:</i>				
Equipment	\$ 12,643	\$ -	\$ -	\$ 12,643
<i>Less accumulated depreciation:</i>				
Equipment	<u>(8,653)</u>	<u>(1,330)</u>	<u>-</u>	<u>(9,983)</u>
Net Capital Assets	<u>\$ 3,990</u>	<u>\$ (1,330)</u>	<u>\$ -</u>	<u>\$ 2,660</u>

NOTE 6 - LONG-TERM OBLIGATION

The following is a summary of the Council's long-term obligations as of September 30, 2007 and the transactions during the year then ended:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	<u>\$ 25,769</u>	<u>\$ -</u>	<u>\$ 9,454</u>	<u>\$ 16,315</u>	<u>\$ 10,186</u>

Payments for this note are due in monthly installments of \$928. The note bears interest at a rate of 7.75%. The note is secured by all assets of the Council.

The annual requirements to amortize the debt obligation are as follows:

<u>Year End September 30</u>	<u>Principal</u>	<u>Interest</u>
2008	10,186	950
2009	<u>6,129</u>	<u>189</u>
Total	<u>\$ 16,315</u>	<u>\$ 1,139</u>

NOTE 7 - LINE OF CREDIT

The Council has available a revolving line of credit with a bank for \$100,000. The line of credit is renewed on an annual basis. Borrowings under the line of credit bear interest at the bank's prime rate plus 1%. All borrowings are collateralized by substantially all assets of the Council. Outstanding liability on the line of credit was \$58,600 at September 30, 2007. The following is a summary of transactions for the fiscal year September 30, 2007.

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>\$ 46,051</u>	<u>\$ 58,600</u>	<u>\$ 46,051</u>	<u>\$ 58,600</u>

NOTE 8 - LEASES

Northeast Michigan Council of Governments leases an office building on a month-to-month basis in Gaylord, Michigan under an operating lease that expires June 30, 2007. Amounts charged to expense under the operating lease totaled \$19,200 for the year ended September 30, 2007.

In July 2005, the Council began leasing office space in Alpena, Michigan on a month-to-month basis for \$200 per month. Amounts charged to expense under this arrangement totaled \$2,550 for the year ended September 30, 2007.

NOTE 9 - DEFERRED REVENUE

The amount reported as "Deferred Revenue" as of September 30, 2007, consists of amounts deferred from the following funding sources:

Grayling Area Transportation – Local Share	\$	4,995
--	----	-------

NOTE 10 - INDIRECT COSTS

Indirect costs which support all projects are allocated based on the ratio of the individual project's salaries and fringe benefits to total projects salaries and fringe benefits. The following are the total indirect costs allocated to projects, including agency administration:

Salaries	\$	27,539
Fringes		9,013
Supplies and printing		12,771
Postage		2,562
Legal and accounting		7,250
Staff travel		7,125
Telephone		4,953
Rent		17,820
Equipment usage and maintenance		1,812
Dues, subscription, and education		4,732
Computers/software and support		9,787
Insurance		898
Other		<u>333</u>
Total Indirect Costs	\$	<u>106,595</u>

NOTE 11 - DEFERRED COMPENSATION PLAN

The Council offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all Council employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

NOTE 12 - DEFINED CONTRIBUTION PLAN

The Council provides pension benefits for full-time employees, as designated by Council, through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Council's contributions for each employee (and interest allocated to each employee's account) are fully vested immediately.

The Council's total payroll in fiscal year 2007 was \$249,568. As permitted, Council elected not to contribute to the plan for fiscal year 2007 due to financial constraints. \$12,481 was contributed by employees.

NOTE 13 - CONTINGENCIES

Certain funded contractual programs are subject to audit by the grantors. Upon audit, some expenditures may be disallowed and as a result, those amounts may be refundable. Such refunds if any are generally payable from the Council's unrestricted net assets. The Council feels that any potential disallowances are immaterial.

NOTE 14 - RISK MANAGEMENT

The council is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Council carries commercial insurance for risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded coverage in any of the past three years.

Other Supplementary Information

Northeast Michigan Council of Governments

Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended September 30, 2007

Revenues

Federal	\$ 384,333
State	535,077
Local	183,784
In-kind Contributions	16,883
Other Income	699

Total Revenues	<u>1,120,776</u>
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Expenses

Salaries	222,028
Fringes	72,673
Consultant Fees	583,608
Advertising	264
Supplies	4,212
Postage	1,845
Telephone	2,844
Travel	13,451
Printing	1,964
Equipment Usage & Maintenance	5,841
Direct Equipment and Software	45
Dues and Subscription	3,921
Meeting Expense	5,362
Consultant Travel	7,820
Other Direct Expense	75,190
Interest Expense	3,729
Depreciation	1,330
Indirect Costs	106,595
In Kind Expense	16,883

Total Expenses	<u>1,129,605</u>
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Changes in Net Assets	(8,829)
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Net Assets, Beginning	11,707
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Net Assets, Ending	<u><u>\$ 2,878</u></u>
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Northeast Michigan Council of Governments

Program Activity Activity Combining Statement For the Year Ended September 30, 2007

	Community Corrections	Economic Development	Transportation	Environmental and Water Resources	Planning	Program Subtotal	Agency Operations	Eliminating Entry	Total Activity
Operating Revenue									
Federal	\$ -	\$ 79,919	\$ 141,802	\$ 162,612	\$ -	\$ 384,333	\$ -	\$ -	\$ 384,333
State	441,064	-	94,013	-	-	535,077	-	-	535,077
Local	3,725	7,560	21,255	483	85,954	118,977	64,807	-	183,784
Contributions:			-						
In Kind	-	25,322	-	23,253	-	48,575	-	(31,692)	16,883
Other Income	-	-	-	-	-	-	699	-	699
Total Operating Revenue	444,789	112,801	257,070	186,348	85,954	1,086,962	65,506	(31,692)	1,120,776
Operating Expense									
Salaries	29,936	40,408	64,999	18,855	39,170	193,368	28,660	-	222,028
Fringes	9,798	13,226	21,275	6,340	12,996	63,635	9,038	-	72,673
Consultant Fees	368,242	300	134,172	73,264	7,630	583,608	-	-	583,608
Advertising	-	264	-	-	-	264	-	-	264
Supplies	233	1,373	2,483	20	103	4,212	-	-	4,212
Postage	9	735	130	240	709	1,823	22	-	1,845
Telephone	2,844	-	-	-	-	2,844	-	-	2,844
Travel	936	5,293	2,461	1,476	2,589	12,755	696	-	13,451
Printing	-	1,418	128	45	373	1,964	-	-	1,964
Equipment Usage and Maintenance	5,242	400	199	-	-	5,841	-	-	5,841
Direct Equipment and Software	45	-	-	-	-	45	-	-	45
Dues and Subscriptions	492	3,249	125	-	-	3,866	55	-	3,921
Meeting Expense	418	2,052	501	101	1,362	4,434	928	-	5,362
Consultant Travel	7,765	40	-	-	15	7,820	-	-	7,820
Other Direct Expense	7,268	5,000	1,274	56,035	5,100	74,677	513	-	75,190
Interest Expense	-	-	-	-	-	-	3,729	-	3,729
Depreciation	-	-	-	-	-	-	1,330	-	1,330
Indirect Costs	14,372	17,909	31,205	8,356	18,878	90,720	15,875	-	106,595
In Kind Expense	-	25,322	-	23,253	-	48,575	-	(31,692)	16,883
Total Operating Expense	447,600	116,989	258,952	187,985	88,925	1,100,451	60,846	(31,692)	1,129,605
Program Income / (Loss)	\$ (2,811)	\$ (4,188)	\$ (1,882)	\$ (1,637)	\$ (2,971)	\$ (13,489)	\$ 4,660	\$ -	\$ (8,829)

Northeast Michigan Council of Governments

Program Activity Community Corrections Programs Combining Statement For the Year Ended September 30, 2007

	Northern Michigan CCAB	Sunrise Side CCAB	Saturday Work Program	Community Corrections Programs Total
Operating Revenues				
State	\$ 266,774	\$ 174,290	\$ -	\$ 441,064
Local	-	-	3,725	3,725
Total Operating Revenues	266,774	174,290	3,725	444,789
Expenses				
Salaries	17,589	12,347	-	29,936
Fringes	5,757	4,041	-	9,798
Consultant Fees	223,243	142,119	2,880	368,242
Supplies	79	154	-	233
Postage	-	9	-	9
Telephone	2,296	548	-	2,844
Travel	240	696	-	936
Equipment Usage and Maintenance	3,375	1,867	-	5,242
Direct Equipment and Software	45	-	-	45
Dues and Subscriptions	246	246	-	492
Meeting Expense	164	254	-	418
Consultant Travel	3,574	4,191	-	7,765
Other Direct Expenses	3,949	3,319	-	7,268
Indirect Costs	8,444	5,928	-	14,372
Total Expenses	269,001	175,719	2,880	447,600
Program Income / (Loss)	\$ (2,227)	\$ (1,429)	\$ 845	\$ (2,811)

Northeast Michigan Council of Governments

<div> <div>Program Activity</div> <div>Economic Development Programs Combining Statement</div> <div>For the Year Ended September 30, 2007</div> </div>							
	District Continuation Planning Grant	District Continuation Planning Grant	Creating Entrepreneurial Communities	USDA RBS Small Business Incubator Feasibility Study	Rebuild Michigan Community Partnership	Energy Fair	Economic Development Programs Total
Operating Revenue							
Federal	\$ 45,554	\$ 21,607	\$ -	\$ 155	\$ 12,603	\$ -	\$ 79,919
Local	-	-	5,000	-	-	2,560	7,560
Contributions:							
In Kind	20,782	-	-	-	4,540	-	25,322
Total Operating Revenue	66,336	21,607	5,000	155	17,143	2,560	112,801
Operating Expense							
Salaries	21,839	11,551	-	67	6,378	573	40,408
Fringes	7,148	3,781	-	22	2,160	115	13,226
Consultant Fees	-	-	-	-	-	300	300
Advertising	-	-	-	-	-	264	264
Supplies	-	17	-	-	1,335	21	1,373
Postage	283	78	-	-	374	-	735
Travel	2,621	2,327	-	34	253	58	5,293
Printing	342	137	-	-	939	-	1,418
Equipment Usage and Maintenance	-	400	-	-	-	-	400
Dues and Subscriptions	2,614	635	-	-	-	-	3,249
Meeting Expenses	222	221	-	-	1,564	45	2,052
Consultant travel	-	-	-	-	-	40	40
Other direct expense	-	-	5,000	-	-	-	5,000
Indirect Costs	10,485	5,546	-	32	1,731	115	17,909
In Kind Expense	20,782	-	-	-	4,540	-	25,322
Total Operating Expense	66,336	24,693	5,000	155	19,274	1,531	116,989
Program Income / (Loss)	\$ -	\$ (3,086)	\$ -	\$ -	\$ (2,131)	\$ 1,029	\$ (4,188)

Northeast Michigan Council of Governments

	Program Activity Transportation Programs Combining Statement For the Year Ended September 30, 2007				
	MDOT Transportation Planning	FY 07 Asset Management	Grayling Area Transportation Needs Study	US-23 Heritage Route	Transportation Programs Total
Operating Revenue					
Federal	\$ -	\$ -	\$ 113,406	\$ 28,396	\$ 141,802
State	40,000	39,828	7,086	7,099	94,013
Local	-	-	21,255	-	21,255
Total Operating Revenue	40,000	39,828	141,747	35,495	257,070
Expenses					
Salaries	20,884	20,679	11,003	12,433	64,999
Fringes	6,836	6,768	3,602	4,069	21,275
Consultant Fees	-	-	121,747	12,425	134,172
Supplies	290	2,145	-	48	2,483
Postage	130	-	-	-	130
Travel	1,235	533	120	573	2,461
Printing	128	-	-	-	128
Equipment Usage and Maintenance	-	199	-	-	199
Dues and Subscriptions	75	50	-	-	125
Meeting Expense	402	94	-	5	501
Other Direct Expenses	-	1,274	-	-	1,274
Indirect Costs	10,026	9,927	5,283	5,969	31,205
Total Expenses	40,006	41,669	141,755	35,522	258,952
Program Income / (Loss)	\$ (6)	\$ (1,841)	\$ (8)	\$ (27)	\$ (1,882)

Northeast Michigan Council of Governments

Program Activity Environmental and Water Resources Programs Combining Statement For the Year Ended September 30, 2007

	Thunder Bay Watershed Initiative	Grand Lake Coastal Watershed Project Phase II	Presque Isle Green Infrastructure Plan	Other Environmental & Water Resource Programs	Environmental & Water Resources Program Total
Revenues					
Federal	\$ 108,335	\$ 8,118	\$ 36,567	\$ 9,592	\$ 162,612
Local	-	-	-	483	483
Contributions:					
In Kind	16,883	6,370	-	-	23,253
Total Revenues	125,218	14,488	36,567	10,075	186,348
Expenses					
Salaries	3,243	4,644	8,290	2,678	18,855
Fringes	1,061	1,520	2,714	1,045	6,340
Consultant Fees	47,117	-	21,147	5,000	73,264
Supplies	-	11	-	9	20
Postage	16	-	-	224	240
Travel	-	497	809	170	1,476
Printing	2	-	-	43	45
Meeting Expenses	-	8	-	93	101
Other direct expense	56,035	-	-	-	56,035
Indirect Costs	861	2,229	3,980	1,286	8,356
In Kind	16,883	6,370	-	-	23,253
Total Expenses	125,218	15,279	36,940	10,548	187,985
Program Income / (Loss)	\$ -	\$ (791)	\$ (373)	\$ (473)	\$ (1,637)

Northeast Michigan Council of Governments

Program Activity Planning Combining Statement For the Year Ended September 30, 2007

	City of Alpena Comprehensive Plan	Crawford County Master Plan	Bearinger Township Master Plan	Other Planning Programs	Planning Programs Total
Revenues					
Local	\$ 17,435	\$ 8,691	\$ 7,090	\$ 52,738	\$ 85,954
Total Revenues	17,435	8,691	7,090	52,738	85,954
Expenses					
Salaries	9,256	4,795	3,967	21,152	39,170
Fringes	3,029	1,570	1,299	7,098	12,996
Consultant Fees	-	-	-	7,630	7,630
Supplies	66	-	-	37	103
Postage	35	-	-	674	709
Travel	606	159	348	1,476	2,589
Printing	-	-	-	373	373
Meeting Expense	-	-	-	1,362	1,362
Consultant Travel	-	-	-	15	15
Other direct expense	-	-	-	5,100	5,100
Indirect Costs	4,443	2,302	1,905	10,228	18,878
Total Expenses	17,435	8,826	7,519	55,145	88,925
Program Income / (Loss)	\$ -	\$ (135)	\$ (429)	\$ (2,407)	\$ (2,971)

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
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OFFICES IN
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Northeast Michigan Council
of Governments
Gaylord, Michigan

We have audited the financial statements of the governmental activities and major fund of the Northeast Michigan Council of Governments as of and for the year ended September 30, 2007, which collectively comprise the Council's basic financial statements and have issued our report thereon dated January 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Northeast Michigan Council of Governments internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Council's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Council's financial statements that is more than inconsequential will not be prevented or detected by the Council's internal control.

Board of Directors
Northeast Michigan Council
of Governments

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Council's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Michigan Council of Government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Northeast Michigan Council of Governments in a separate letter dated January 15, 2008.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

January 15, 2008



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT TO MANAGEMENT

Board of Directors
Northeast Michigan Council
of Governments
Gaylord, Michigan

We have audited the financial statements of the Northeast Michigan Council of Governments for the year ended September 30, 2007, and have issued our reports thereon dated January 15, 2008. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of Northeast Michigan Council of Governments. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed tests of Northeast Michigan Council of Government/s compliance with certain provisions of laws, regulations, contract, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Northeast Michigan Council of Governments are described in Note 1. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Northeast Michigan Council of Governments during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Northeast Michigan Council of Government's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Northeast Michigan Council of Governments, either individually or in the aggregate, indicate matters that could have a significant effect on the Northeast Michigan Council of Government's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Northeast Michigan Council of Governments or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Northeast Michigan Council of Government's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit. We encountered no difficulties in accumulating the necessary documentation to support our financial statements.

Comments and Recommendations

Fraud Policy

With the implementation of Statement on Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The Board does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

Conclusion

This information is intended solely for the use of federal awarding agencies, pass-through entities, and management of the Northeast Michigan Council of Governments and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

January 15, 2008